

DOMTAR CORPORATION

SECOND QUARTER 2016 EARNINGS CALL

July 27, 2016

(All financial information is in U.S. dollars, and all earnings per share results are diluted, unless otherwise noted.)



Domtar

SAFE HARBOR

Forward-Looking Statements

All statements in this presentation that are not based on historical facts are “forward-looking statements.” While management has based any forward-looking statements on its current expectations, the information on which such expectations are based may change. These forward-looking statements rely on a number of assumptions concerning future events and are subject to a number of risks, uncertainties and other factors, many of which are outside of our control, that could cause actual results to materially differ from those projected in the forward-looking statements.

Risk Factors

For a summary of the risk factors, please refer to Domtar’s Annual Report on Form 10-K for the year ended December 31, 2015 filed with the Securities and Exchange Commission and as updated by subsequently filed Form 10-Q’s.

Non-GAAP Financial Measures

This presentation refers to non-GAAP financial information. For a reconciliation to GAAP financial measures, please refer to the investors section of the company’s website at <http://www.domtar.com> (Refer to the Analyst Corner of the IR section of the website).

OVERVIEW

Second Quarter 2016

- Strong execution during maintenance outages and higher pulp and paper prices drive improved results
- Most active operational quarter to date; 52 days of maintenance downtime on paper machines and 59 days on pulp machines at 11 of our 13 mills
- Conversion of Ashdown paper machine to fluff pulp continues to progress with start-up scheduled in the next few days
- Good sales momentum in Personal Care with sales increasing 6% year/year; on track to realize further top-line benefits through the rest of the year

FINANCIAL HIGHLIGHTS

Second Quarter 2016

- Net earnings of \$0.29 per diluted share; earnings before items* of \$0.61 per share
- EBITDA before items* of \$152 million
- Cash flow provided from operating activities of \$118 million
- Capital expenditures of \$119 million
- Dividend payout of \$25 million

* Non-GAAP financial measure. Refer to reconciliation available at www.domtar.com (refer to the Analyst Corner of the IR section of the website).

EARNINGS STATEMENT

2Q'16 vs. 1Q'16 (in millions of dollars)

	1Q'16	2Q'16	
Sales	1,287	1,267	Lower pulp and paper sales and higher Personal Care sales
Cost of sales	1,050	1,013	
Depreciation and amortization	89	87	
SG&A	103	104	
Impairment of PP&E	21	3	Accelerated depreciation of Ashdown paper machine
Closure and restructuring costs	2	21	Ashdown conversion related costs
Other operating loss, net	4	-	
Operating income	18	39	
Interest expense, net	17	15	
Income tax (benefit) expense	(3)	6	
Net earnings	4	18	

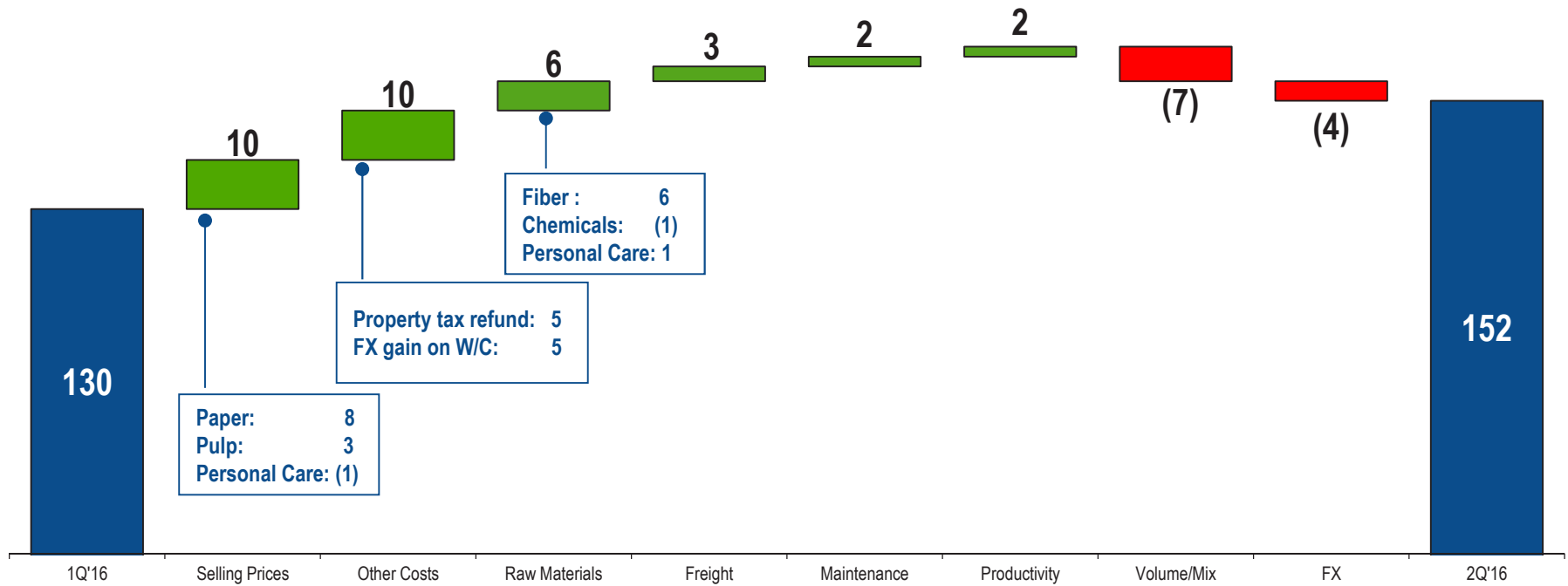
CASH FLOW STATEMENT

2Q'16 vs. 2Q'15 *(in millions of dollars)*

	2Q'15	2Q'16
Net earnings	38	18
Depreciation and amortization	91	87
Deferred income taxes and tax uncertainties	(17)	(2)
Impairment of PP&E	18	3
Net gains on disposal of PP&E	(14)	-
Changes in assets and liabilities		
Changes in working capital	4	21
Pension expense over contribution	1	(2)
Other	1	(7)
Cash flows provided from operating activities	122	118
Additions to PP&E	(66)	(119)
Proceeds from disposals of PP&E	6	-
Other	9	(1)
Cash flows used for investing activities	(51)	(120)
Dividend payments and stock repurchases	(43)	(25)
Changes in borrowings	(6)	44
Other	-	(1)
Cash flows (used for) provided from financing activities	(49)	18

EBITDA BEFORE ITEMS*

2Q'16 vs. 1Q'16 (in millions of dollars)



* Non-GAAP financial measure. Refer to reconciliation available at www.domtar.com (refer to the Analyst Corner of the IR section of the website).

PULP AND PAPER SEGMENT

(in millions of dollars)

	2Q'16	vs. 1Q'16	vs. 2Q'15
Sales	\$1,054	↓ 3%	↓ 5%
EBITDA before items *	131	↑ \$16	↓ \$4

- Focus on costs, execution, and limited negative discoveries resulted in below plan maintenance spending
- Higher pulp and paper prices following announced price increases
- Conversion of the Ashdown paper machine to fluff pulp continues to progress with start-up scheduled in the next few days
- Reduced pulp and paper inventories by 16,000 metric tons and 37,000 short tons

* Non-GAAP financial measure. Refer to reconciliation available at www.domtar.com (refer to the Analyst Corner of the IR section of the website).

PULP AND PAPER SEGMENT

PAPER *(in millions of dollars)*

	2Q'16	vs. 1Q'16	vs. 2Q'15
Sales	\$816	↓ 3%	↓ 5%
EBITDA before items *	\$114	↑ \$5	↓ \$9
	2Q'16	vs. 1Q'16	vs. 2Q'15
Shipments <i>(manufactured, in thousands of short tons)</i>	752	↓ 4%	↓ 4%
Transaction prices <i>(US\$ / ton – net, all regions)</i>		↑ \$10	↓ \$14

* Non-GAAP financial measure. Refer to reconciliation available at www.domtar.com (refer to the Analyst Corner of the IR section of the website).

PULP AND PAPER SEGMENT

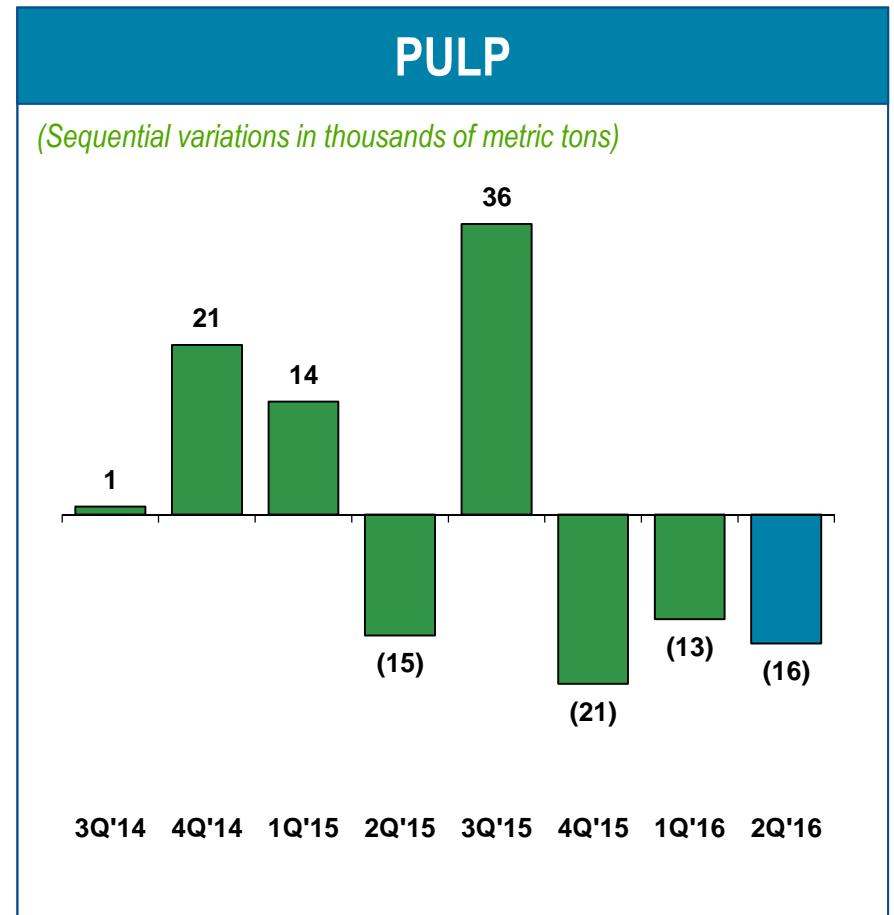
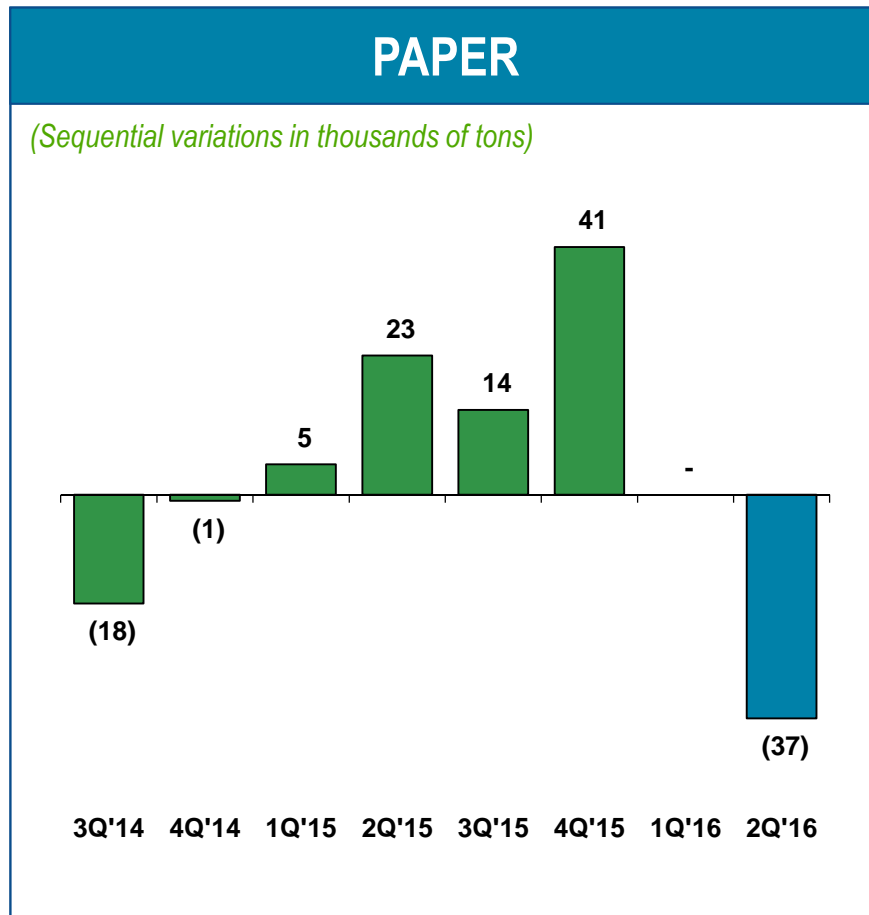
PULP *(in millions of dollars)*

	2Q'16	vs. 1Q'16	vs. 2Q'15
Sales <i>(incl. intersegment sales)</i>	\$238	↓ 1%	↓ 5%
EBITDA before items *	\$17	↑ \$11	↑ \$5
	2Q'16	vs. 1Q'16	vs. 2Q'15
Shipments <i>(in thousands of ADMT)</i>	360	↓ 2%	↑ 4%
Transaction prices <i>(US\$ / ADMT – net, all regions)</i>		↑ \$10	↓ \$57

* Non-GAAP financial measure. Refer to reconciliation available at www.domtar.com (refer to the Analyst Corner of the IR section of the website).







PULP AND PAPER SEGMENT

INVENTORIES



PERSONAL CARE SEGMENT

(in millions of dollars)

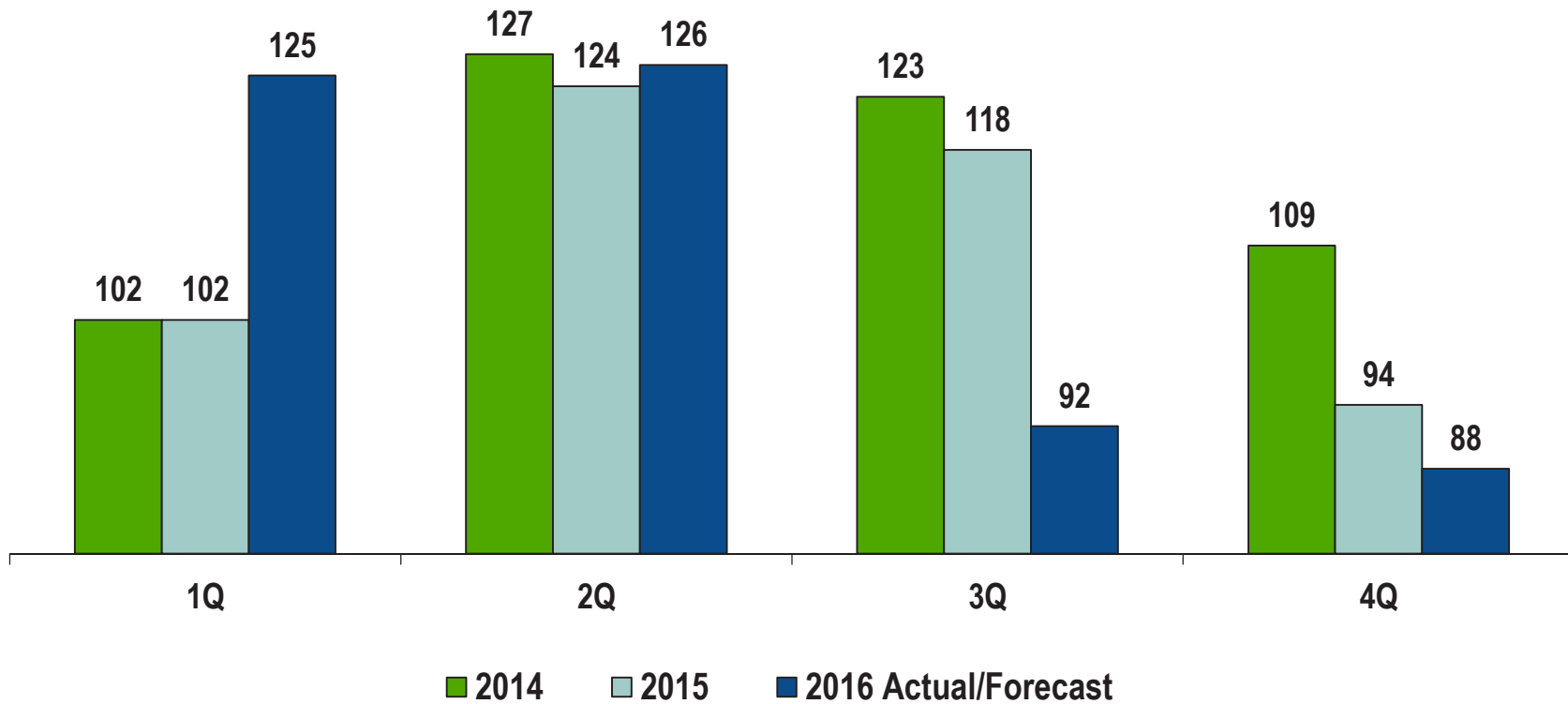
	2Q'16	vs. 1Q'16	vs. 2Q'15
Sales	\$228	 6%	 6%
EBITDA before items*	\$30		 \$3
Same Currency Sales (@1Q'16FX rate)	\$226	 5%	-
Same Currency Sales (@2Q'15 FX rate)	\$228	-	 6%

- Sales increased 6% year/year; strong volume growth in baby diapers, up 21% year/year as a result of our new customer wins
- Re-launch of the Indasec light incontinence brand in Spain
- Laid the groundwork for the adult incontinence launch at a major retailer; invested in innovation and associated product development and packaging
- Added the Butterfly brand to our extensive line of products

*Non-GAAP financial measure. Refer to reconciliation available at www.domtar.com (refer to the Analyst Corner of the IR section of the website).

MAINTENANCE COSTS*

(in millions of dollars)



* Total maintenance costs includes planned maintenance, maintenance over \$100k outside of planned shutdown period, and day-to-day maintenance expenses in Pulp and Paper.

OUTLOOK

2H 2016:

- Domtar paper shipments are expected to trend with market demand
- The paper business should continue to benefit from recently announced price increases while we expect some short-term pricing volatility in pulp
- Lower maintenance activity and better productivity should positively impact results in Pulp and Paper
- Personal Care results are expected to benefit from the new customer wins, market growth and cost savings from the new manufacturing platform
- Raw material unit costs are expected to moderately increase



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Appendix

SUPPLEMENTAL SEGMENTED INFORMATION

PULP & PAPER SEGMENT									
<i>(In millions of dollars)</i>	2Q'14	3Q'14	4Q'14	1Q'15	2Q'15	3Q'15	4Q'15	1Q'16	2Q'16
Paper	906	914	889	889	860	855	850	844	816
Pulp (incl. intrasegment sales)	309	322	316	301	298	277	301	284	275
Intrasegment sales – Pulp	(55)	(50)	(45)	(44)	(48)	(40)	(41)	(43)	(37)
Pulp	254	272	271	257	250	237	260	241	238
SALES	1,160	1,186	1,160	1,146	1,110	1,092	1,110	1,085	1,054
Paper	142	139	148	132	123	103	135	109	114
Pulp	11	43	47	36	12	47	45	6	17
EBITDA before items*	153	182	195	168	135	150	180	115	131
Paper Shipments – Manufactured	779	777	785	804	783	779	797	786	752
Paper Shipments – Sourced from 3rd parties	42	46	35	35	29	35	28	32	29
Paper Shipments	821	823	820	839	812	814	825	818	781
Pulp Shipments	336	367	370	350	345	333	386	369	360
PERSONAL CARE SEGMENT									
<i>(In millions of dollars)</i>	2Q'14	3Q'14	4Q'14	1Q'15	2Q'15	3Q'15	4Q'15	1Q'16	2Q'16
SALES	234	231	230	218	216	214	221	216	228
EBITDA before items*	29	29	26	27	33	32	32	30	30
CORPORATE									
<i>(In millions of dollars)</i>	2Q'14	3Q'14	4Q'14	1Q'15	2Q'15	3Q'15	4Q'15	1Q'16	2Q'16
EBITDA before items*	(7)	(11)	(13)	(15)	(10)	(11)	(8)	(15)	(9)

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SENSITIVITY ANALYSIS

(in millions of dollars)

Papers *(Each \$10/ton change in the selling price of the following products)*

Business Papers

\$16

Commercial Print & Publishing Papers

\$10

Specialty & Packaging Papers

\$3

Pulp – net position *(Each \$10/tonne change in the selling price of the following products)*

Softwood

\$11

Fluff

\$5

Hardwood

-

Foreign exchange

US \$0.01 change in relative value to the Canadian dollar before hedging

\$9

US \$0.01 change in relative value to the Euro before hedging

\$1

Energy

Natural gas: \$0.25/MMBtu change in price before hedging

\$6

THE FIBER *of* Domtar

AGILE | CARING | INNOVATIVE




Domtar